JEL

Justinian Explorations Ltd.

an international oil and gas company

1997 ANNUAL REPORT

Highlights

	12 months period ended December 31, 1997	3 months period ended March 31, 1998
Revenue	$ 144,000	$ 31,000
Capital Expenditures	$ 1,670,000	$ 0
Long Term Debt	$ 0.0	$ 0.0
Oil and Gas Sales (boe)	6,500	1,700

	at December 31, 1997	at April 1, 1998
Proven plus 50% Probable Reserves (mboe)	6,619	15,362
Net Asset Value Per Share – Fully Diluted*	$ 0.68	$ 1.20
Common Shares Outstanding (millions)		
Basic	19.5	29.5
Fully Diluted	21.5	41.0

* Based on net present values of proven plus 50% probable reserves, using constant dollar economics and discounted at 15%.

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ANNUAL MEETING NOTICE

The Annual Meeting of Shareholders will be held on June 29, 1998 at 11:00 a.m. in the Cardium Room, Calgary Petroleum Club located at 319 - 5th Avenue S.W. All shareholders are cordially invited and encouraged to attend. Shareholders who are unable to attend are encouraged to address questions or comments to Clarence Y. Chow at (403) 265-4407, or Sandra Luttyck at (403) 265-4404, or via facsimile at (403) 265-4474.

Corporate Profile

Justinian Explorations Ltd. is a Canadian based energy company engaged in the exploration, development and production of oil and natural gas internationally.

Justinian was formed in 1994 by Morrison Petroleums Ltd., Conwest Exploration Company Limited and OGY Petroleums Ltd., to jointly explore for international oil and gas opportunities. The Corporation acquired its first international asset in two exploration concessions in the Black Sea, Romania.

In 1997, a new management team under the combined leadership of A. Gordon Stollery and Clarence Y. Chow was appointed. A new corporate growth strategy was also adopted to create shareholder value in a sustainable and aggressive manner. The new strategy calls for a balance between opportunity-driven acquisitions and value creation through the drill bit.

To date the Corporation is in possession of a portfolio of producing oil and gas assets with excellent exploration and exploitation upside in both Canada and Argentina and an exciting high risk, high reward oil and gas exploration concession in the Black Sea, offshore Romania.

Justinian's shares are listed for trading on The Alberta Stock Exchange under the symbol "JEL".

Pérfil de la Compañía

Justinian Explorations Ltd. es una compañía petrolera con sede en Canadá, que se dedica a la exploración, el desarrollo y la producción internacional de petróleo y gas natural.

Justinian fue fundada en el año 1994 por Morrison Petroleums Ltd., Conwest Exploration Company Limited y OGY Petroleums Ltd., a fin de buscar conjuntamente oportunidades internacionales en la industria petrolera. La Corporación consiguió su primero activo internacional en la forma de dos concesiones de exploración en el Mar Negro, en Rumania.

En 1997, se nombró una nueva gerencia bajo la dirección coordinada de A. Gordon Stollery y Clarence Y. Chow. Además, se aprobó una estrategia nueva de desarrollo de la compañía, para crear valor de accionista en una forma sostenible y vigorosa. Esta nueva estrategia requiere un balance entre adquisiciones conducidas por oportunidades, y la creación de valor por medio de la perforación.

La Corporación possee una cartera de activos productores de petróleo con potencial excelente en la exploración y explotación, tanto en Canadá como en Argentina; también, la Corporación tiene una concesión impresionante de exploración petrolera con potencialidades de alto riesgo, alta recompensa, en el Mar Negro, costa afuera de Rumania.

Las acciones de Justinian son registradas en la Bolsa Comercial de Alberta (Alberta Stock Exchange) bajo el símbolo "JEL".

Message to Shareholders

OVERVIEW

1997 was a year of excitement and renewal for Justinian Explorations Ltd. The Corporation expanded its shareholder and asset bases and accomplished the following:

- Became a publicly traded company in June 1997 after completing a reverse takeover of an existing oil and gas company listed on The Alberta Stock Exchange;
- Fulfilled the initial drilling commitments in August 1997 on two exploration licenses in the Black Sea, offshore Romania;
- Formed a strategic alliance with a local Argentine oil and gas company to source potential acquisitions of producing assets with significant exploitation and exploration potential;
- Entered into two Letters of Intent with a South American conglomerate in November 1997 to acquire producing oil and gas assets in Peru.
- Entered into a Letter of Intent to jointly develop properties in two blocks in the Neuquen Basin of Argentina, which were subsequently acquired in early 1998.

CORPORATE

During 1997, Justinian completed a comprehensive change of its senior management, and we were able to attract a number of well-seasoned professionals to take the Corporation to a higher level. Together, our Directors and management have fine-tuned the corporate strategic plan to balance acquisitions with value creation through the drill bit.

On June 28, 1997, Justinian successfully completed a reverse takeover of PetroPower Energy Inc., an oil and gas company listed on The Alberta Stock Exchange. Subsequently, PetroPower's issued securities were consolidated based on a seven-to-one ratio and the two companies were amalgamated under the name of Justinian Explorations Ltd.

PetroPower was mainly a natural gas producer with its principal asset located in the Ferrybank area, central Alberta. The acquisition of PetroPower provided Justinian with its first producing oil and gas assets and market liquidity for its shareholders.

In addition to a $3,000,000 equity financing completed in June 1997, Justinian closed another $3,000,000 equity financing in March 1998 by issuing a total of 10,000,000 special warrants at a price of $0.30 per special warrant. Each special warrant is exchangeable into one common share and three quarters of a warrant to purchase another common share at $0.42, at any time up to March 30, 1999. The funds will be used for the acquisition and capital expenditures of the Argentine assets.

EXPLORATION

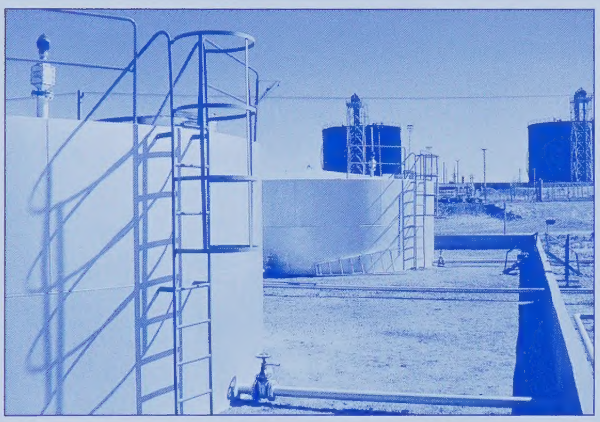
Justinian participated in the drilling of three high reward, high risk exploratory wells in its two exploration licenses covering 1.7 million acres in the Black Sea, offshore Romania. The drilling of these wells completed the initial exploration commitments on the two licenses. Although the 1997 exploration results in the two blocks were disappointing, the Corporation is encouraged that five out of six exploratory wells drilled to date indicated the presence of natural gas and hydrocarbons in the structures penetrated. ARCO, the new operator and the world leader in advanced seismic analysis technology, will conduct a comprehensive review of all existing seismic data and information obtained from past exploration activities, with particular emphasis on evaluating the previous year's natural gas discovery which was tested at a rate of 17.5 million cubic feet per day.

Domestically, Justinian participated in a successful exploratory natural gas well in Ferrybank, central Alberta.

In March 1998 Justinian closed a $3 million equity financing to fund the acquisition and development of properties in the Neuquen Basin in Argentina.

ACQUISITIONS

Justinian established a new focus area and a strategic alliance with a partner having low cost operating experience in Argentina, with a view to jointly sourcing acquisition opportunities for under-developed producing oil and gas assets with significant exploitation and exploration upside. On November 27, 1997, Justinian entered into a Letter of Intent with Ingenieria Alpa S.A. to develop properties contained in two blocks located in the Neuquen Basin of Argentina. We believe that the property is severely under-developed and that the potential to increase production and reserves in these two blocks is significant.



Treating Facilities, Puesto Morales Sur, Argentina

On April 1, 1998, Justinian and Alpa closed the acquisition and took over the operation of the properties. Based on an independent engineering firm's report and its estimate of Justinian's share of the proven plus 50% of the probable oil reserves totaling 8.2 million barrels, Justinian's acquisition cost is $0.18 per barrel and the finding and development cost is $2.50 per barrel.

Late in 1997, Justinian also entered into two Letters of Intent with a Peruvian conglomerate, to purchase a 50% interest in its oil and gas assets located in the country.

> The successful and relatively low cost acquisition of the Argentina oil and gas assets is just our first step in South America.

OUTLOOK

The Corporation will focus on increasing production in its existing properties in Argentina through fracturing, working over existing wells, and infill drilling in the coming months. A number of workover candidates and infill drilling locations have been identified.

With respect to the potential acquisitions in Peru, the Corporation is currently in the process of re-evaluating the economic viability of the proposals in view of the current low oil price environment.

The successful and relatively low cost acquisition of the Argentina oil and gas assets is just our first step in South America. We have built a strong strategic alliance with a highly regarded local partner in Argentina, and the Corporation, jointly with its partner, is currently in the process of evaluating a number of other potential acquisitions. We strongly believe that with a set of stringent acquisition criteria and prudent management of operations, the Corporation will continue to create shareholder value even in this low oil price environment. We are confident that Justinian will exit 1998 with a significant increase in production.

I would like to take this opportunity to express gratitude to all Justinian's employees and associates for their hard work and dedication to the Corporation. In particular, I thank Mr. Vlad Wolodarsky, founder and past president of Justinian, and Mr. Bill Work for their past contributions to the Corporation. Finally, I wish to extend my appreciation to our Board of Directors for their valuable guidance, and to our many shareholders for their continued support.

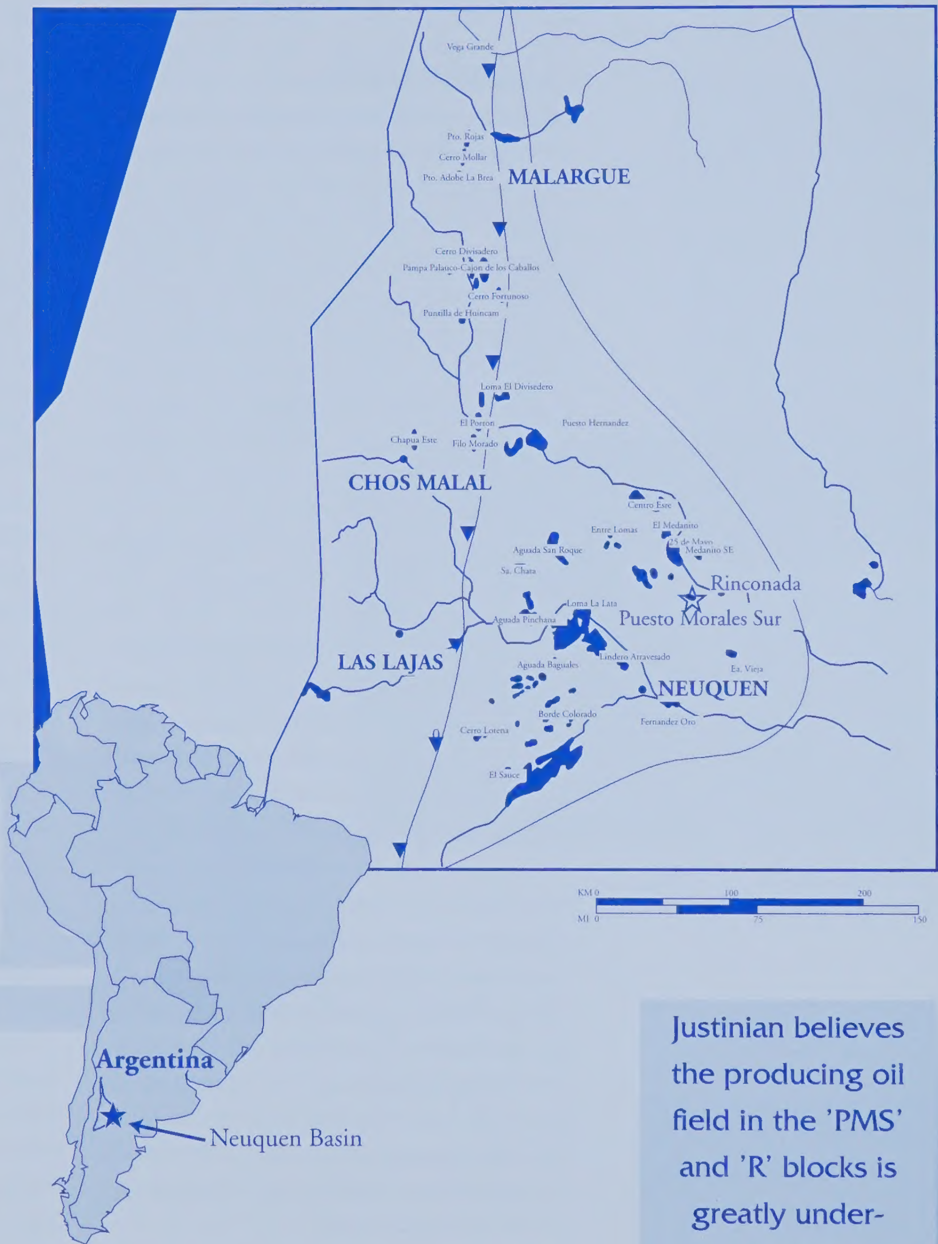
With an aggressive management team and an entrepreneurial Board of Directors, we look forward to the exciting opportunities before us, and to creating shareholder value for years to come.

On behalf of the Board of Directors,

Clarence Y. Chow
President and Chief Executive Officer
May 28, 1998

Operations

Neuquen Oil Basin, Argentina



Argentina

In November 1997, Justinian signed a Letter of Intent with Ingenieria Alpa S.A. ("Alpa"), a private Argentine oil and gas company, to jointly acquire two Blocks, Puesto Morales Sur ("PMS") and Rinconada ("R"), covering approximately 93,000 acres, located in the east central part of the Neuquen Basin, Argentina. Justinian and Alpa closed the acquisition and took over the operation of the properties on April 1, 1998. Justinian's interest in the properties will initially be 100% until the recovery of a portion of the acquisition cost has been made. Subsequently, Justinian's interest will be 65% and increasing to 80% dependent on its future capital expenditure in the project.

Based on an independent engineering firm's estimate of the producing multi-zone Loma Montosa reservoir located in the PMS Block, Justinian's share of the proven plus probable reserves are 12.7 million barrels of oil equivalent. Reserve estimates for a shut-in gas reservoir and another oil reservoir located in the concessions are yet to be completed.

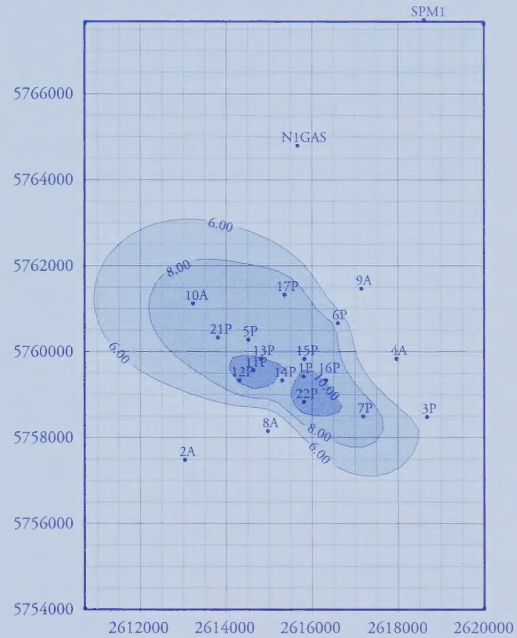
There are a total of 20 wells in the PMS Block of which 9 are currently producing 120 barrels per day of 34 degree API of light crude oil. In addition, 9 wells located in the R Block are either shut-in or abandoned. Oil was discovered in both blocks in the late 1960's by YPF S.A., the former state-owned and currently the largest privately owned oil and gas company in the country. No exploration or development activities have been carried out in the fields since 1976. A natural gas discovery was made in the properties in the early 1970's, that has neither been evaluated nor put on production by the previous owners. It is Justinian's belief that the field is severely under-developed and under-explored.

Justinian believes the producing oil field in the 'PMS' and 'R' blocks is greatly under-developed and under-explored, while reserve estimates for a shut-in gas reservoir and another oil reservoir are yet to be completed.

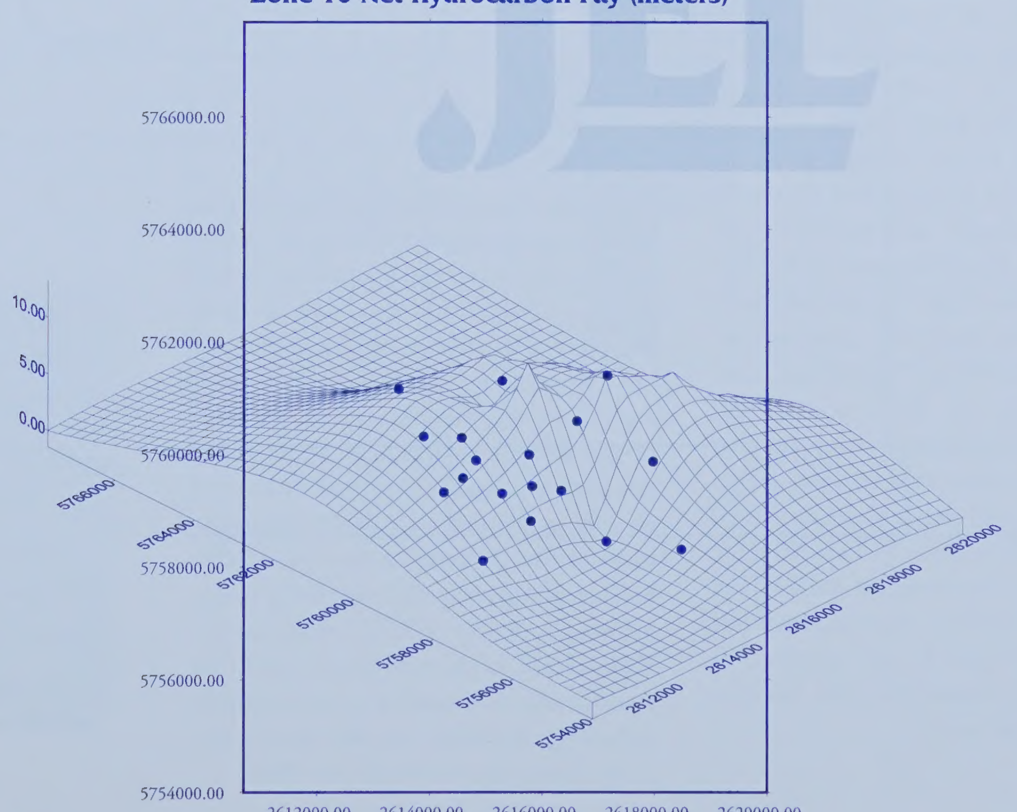
The PMS Block is currently producing from a sandy dolomite reservoir containing multi-zone potentials with low water cut in the range of 2% to 7%. Historically, wells completed in the same type of reservoirs in the area tend to have an initial productive capacity of 120 to 180 barrels of oil per day per well.

Current activities are focused on further exploitation of the existing oil reservoir through fracturing, working over existing wells and infill drillings. A number of work-over and infill drilling candidates have been identified internally. In addition, a study is currently under way to evaluate the potential of developing the gas field, which has been ignored for the past two decades. Justinian is encouraged by the future potential of these properties.

Puesto Morales Sur Zone
Effective Oil Thickness (meters)



Puesto Morales Sur
Zone 10 Net Hydrocarbon Pay (meters)



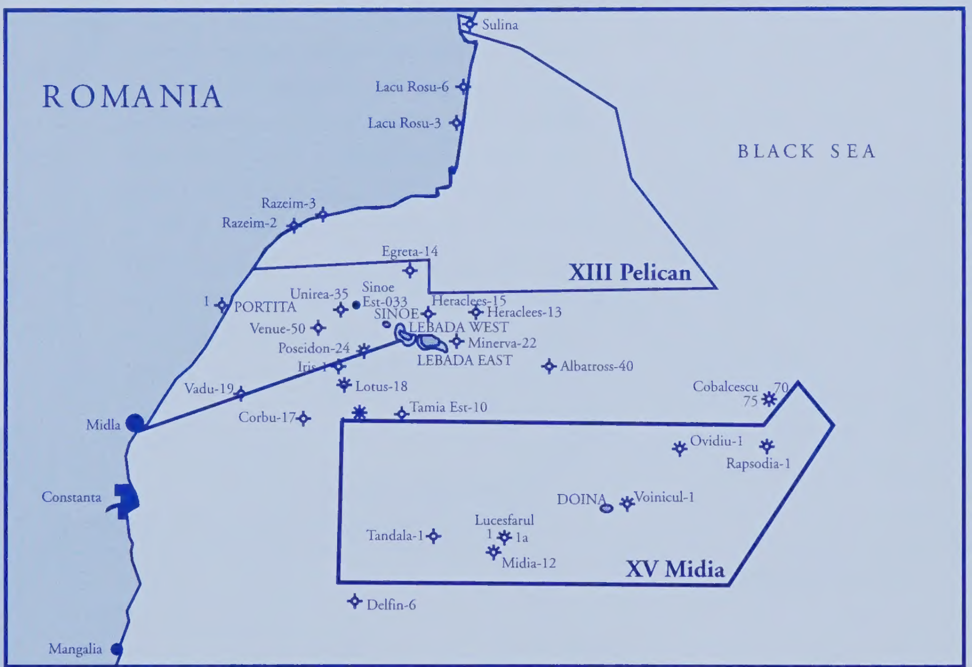
Romania

Justinian acquired a 5% working interest in Blocks XIII and XV containing 1.7 million acres in the Black Sea, offshore Romania in 1994. The two blocks are located in the shallow waters of the northwestern part of the Black Sea where water depths within the blocks range from 150 feet in the nearshore to approximately 400 feet at the eastern boundary of Block XV. Prior to 1997, Justinian participated in drilling three exploratory wells resulting in one gas discovery with a test result of 17.5 million cubic feet of natural gas per day.

In 1997, three more wells were drilled in the Block XV. The Tandala 1 well evaluated synrift clastics of the Middle Cretaceous section and was drilled to 8,930 feet in the Late Jurassic and Early Cretaceous sediments. The well was abandoned in April with approximately 60 feet of tight sands and minor hydrocarbon shows. In July, the Luceafarul 1 well was drilled and abandoned to a total depth at 9,900 feet and encountered a gas-charged limestone reservoir at about 9,100 feet. The reservoir was over-pressured and highly fractured; therefore, only one drill stem test was conducted and tested flowing formation water and non-commercial amounts of gas. The Voinicul well was drilled to a total depth of 5,000 feet in the Late Miocene sediments and abandoned in August. The well encountered non-commercial quantities of gas at an interval of approximately 4,600 feet. No test was carried out in the well.

The three wells drilled in 1997 completed the initial exploration commitment for the two blocks. Five out of the six wells drilled to date confirmed the presence of natural gas in Block XV, and there are still several undrilled prospects, mostly in the eastern part and in the deeper water of the block. Furthermore, Block XIII presents several seismic leads which have yet to be explored.

Blocks XIII and XV, Offshore Romania



Although the commercial viability in further exploring and developing the blocks is yet to be determined pending further review of the seismic data and the past drilling results, Justinian and its partners are encouraged by the results of the past exploration activities. As a result, the term of the concession has been successfully extended for an additional year to the end of 1998 in exchange for a partial relinquishment of 600,000 acres in the two blocks. Justinian's interest in the two blocks is also increased to 8.33%. ARCO, which holds a 75% interest in the two blocks and is the world leader in advanced seismic analysis technology, has taken over the operatorship of the blocks effective March 30, 1998.

In Block XV offshore Romania, Justinian participated in drilling a successful gas discovery which tested 17.5 million cubic feet per day.

Domestic

Justinian owns an average working interest of 12.5% in 21 oil and gas wells of which 16 wells are located in Ferrybank, in central Alberta. In 1997, the average total production rate from these wells was approximately 17 barrels of oil equivalent. These wells were acquired as a result of the reverse takeover of PetroPower in July 1997. Justinian participated and owns a 9.3% working interest in a successful gas exploratory well which was tied-in late last year. With the current positive outlook for natural gas prices, the gas prone Ferrybank area is anticipated to be more active in the foreseeable future.

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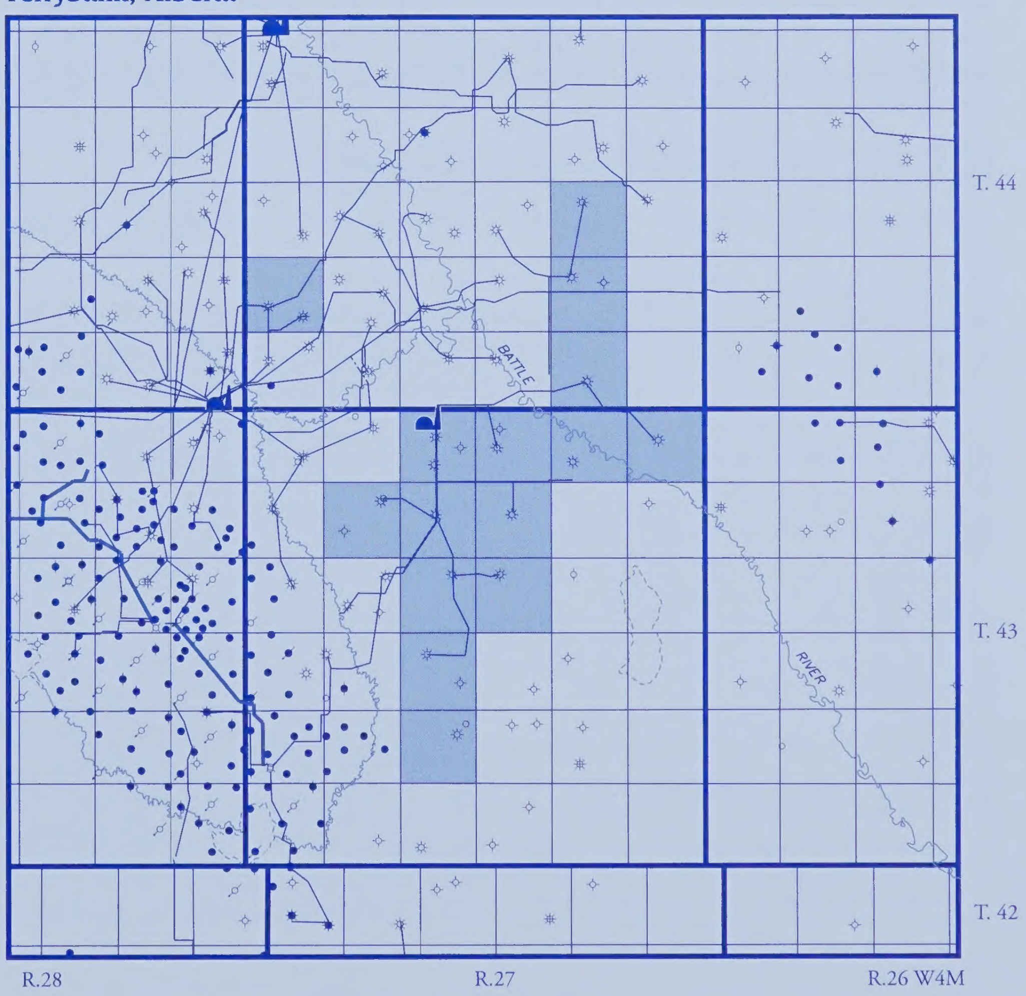
Ferrybank, Alberta



Reserve and Net Present Value Summary

Excluding Oil and Gas Assets in Argentina

	Oil/NGL mbbls	Natural Gas mmcf	Oil Equivalent mboe	Net Present Value Cdn$ million, discounted @15%	@10%
Proved					
Canada	27	172	44	0.19	0.22
Romania	0	55,746	5,575	9.09	18.59
Total Proved	27	55,918	5,619	9.28	18.81
Probable					
Canada	68	166	85	0.34	0.45
Romania	0	30,298	3,030	9.08	15.96
Total Probable	68	30,464	3,115	9.42	16.41
Proved plus 50% Probable					
Canada	61	255	87	0.36	0.45
Romania	0	65,320	6,532	12.72	24.71
Total Proved plus 50% Probable	61	65,575	6,619	13.08	25.16

Including Oil and Gas Assets in Argentina

	Oil/NGL mbbls	Natural Gas mmcf	Oil Equivalent mboe	Net Present Value Cdn$ million, discounted @15%	@10%
Proved					
Canada	27	172	44	0.19	0.22
Romania	0	55,746	5.575	9.09	18.59
Argentina	3,714	45	3,719	13.48	17.29
Total Proved	3,741	55,963	9,334	22.76	36.10
Probable					
Canada	68	66	85	0.34	0.45
Romania	0	30,298	3,030	9.08	15.96
Argentina	8,923	80	8,936	32.42	42.32
Total Probable	8,991	30,544	12,046	41.84	58.73
Proved plus 50% Probable					
Canada	61	255	87	0.36	0.45
Romania	0	70,895	7,090	12.72	24.71
Argentina	8,176	85	8,185	29.69	38.45
Total Proved plus 50% Probable	8,237	71,235	15,362	42.77	63.61

(1) All reserves and net present values were evaluated effective December 31, 1997, except the Romanian oil and gas assets which were evaluated effective January 1, 1997; therefore, drilling activities completed in 1997 in Romania were not reflected in the reserves and net present values as stated above.

(2) All net present values were calculated based on constant dollar economics and the following are the constant wellhead commodity prices used for the assets located in the three countries:

Country	Oil	Natural Gas
Canada	Cdn$ 20.05/Bbl	Cdn$ 2.22/mcf
Romania	–	US$ 2.00/mcf
Argentina	US$ 15.52/Bbl	US$ 2.00/mcf

Management's Discussion and Analysis

OVERVIEW OF 1997

In addition to the exploration activities for natural gas reserves within the Corporation's two Romanian concessions, Justinian undertook various successful initiatives with the objective of diversifying its shareholder and asset bases. These transactions included the reverse takeover of PetroPower Energy Inc., the participation of major Canadian institutional investors in its $3 million private placement, and the execution of three Letters of Intent with two South American companies to acquire oil and gas assets located in Argentina and Peru.

The following discussion and analysis addresses corporate events, financial results, business risks and the Corporation's future outlook.

Puesto Morales Sur, Argentina

CORPORATE EVENTS

Under an Offer to Purchase ("Offer") which closed on June 28, 1997, PetroPower acquired 100% of the shares of Justinian. Each common share of Justinian was exchanged for seven common shares of PetroPower. All outstanding warrants and options of Justinian were also exchanged on the same basis. For accounting purposes, the transaction was treated as a reverse takeover with PetroPower deemed to have been acquired by Justinian. On July 1, 1997, the two companies were amalgamated under the name Justinian. The financial statements of 1997 represent the historical accounts of Justinian with the operations and assets and liabilities of PetroPower accounted for effective June 28, 1997. As a result of this reverse takeover, Justinian became a publicly traded company listed on The Alberta Stock Exchange and at the same time, acquired its first producing oil and gas assets located in the Province of Alberta.

OIL AND GAS REVENUES

As a result of the reverse takeover of PetroPower, Justinian acquired an average working interest of 12.5% in 21 oil and gas producing wells, of which 16 are located in the Ferrybank region of central Alberta. The total average production rate per day from these wells was 17.1 boe in 1997. Roughly 75% of Justinian's Alberta production is natural gas. Net operating income was $51,502 in 1997. All of Justinian's natural gas is sold to a major aggregator on a life-of-reserves basis.

NET LOSS

The Corporation had a net loss of $584,164 for the year, compared with $131,679 for 1996.

DEPLETION AND DEPRECIATION

Included in the loss for 1997, depletion and depreciation expense of $252,648 represents a writedown of the capitalized business development costs of the Mali, Tunisia, and Vietnam assets, all incurred originally in 1994. The Corporation has no immediate plans to acquire interests in these areas but will continue to monitor them with a view to acquiring interests should the appropriate conditions occur. As well, an amount of $29,300 in depletion and depreciation on Canadian properties and assets was recorded. In 1996, no depletion or depreciation expense was recorded.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative costs were $330,317 in 1997 compared with $14,864 in 1996. These expenses were related both to the maintenance of Justinian's working interest in the Romanian Blocks and to the evaluation of business development opportunities. The increase was a result of several factors, including Justinian stepping up its business activities by becoming a public company and setting up its own offices, an increase in professional fees, the administrative costs associated with the reverse takeover of PetroPower and the equity issue of $3,000,000 in June 1997, and the addition of four employees to Justinian's staff. No part of general and administrative costs were included as capitalized costs in 1997.

CAPITAL EXPENDITURES

During 1997, Justinian incurred exploration expenses in Romania of $1,553,561, compared with $391,748 in 1996. The Corporation participated in a three well drilling program in Romania, which completed the drilling commitments under the terms of the Exploration Production Sharing Agreement (EPSA), including one additional well commitment of 1500 meters. In 1997, Justinian directed the bulk of its resources in the second half of 1997 towards identifying and acquiring established producing assets with significant exploration potential. Justinian incurred capital expenditures of $94,025 in areas other than Romania; the bulk of this amount was spent in Alberta on domestic drilling and production activities.

INCOME TAXES

The Corporation is in a loss position; no current income tax provision is required for 1997, and none is expected for 1998, based on management's cash flow forecast. Justinian has tax loss carryforwards of approximately $2,478,000, as detailed below, and income tax pools in excess of $5,000,000. Canada and Argentina have an income tax treaty: therefore, Justinian will be able to maintain a non-taxable position for several years, for income repatriated into Canada from operations in Argentina.

Tax Loss Carryforwards:

Year	$Cdn
1994	$145,361
1995	$869,458
1996	$751,215
1997	$711,960*

* estimate for 1997

LIQUIDITY AND CAPITAL RESOURCES

Justinian issued 5,454,545 shares in 1997 at $0.55 each for a total consideration of $3,000,000 via a private placement transaction, which closed in June 1997, prior to the close of the reverse takeover of PetroPower. The issued share capital of Justinian at the time of the reverse takeover was $8,032,946, plus the deemed value of the shares issued to acquire PetroPower in the amount of $1,306,387. The accumulated share capital and deficit of PetroPower was eliminated at the date of the reverse takeover.

Justinian had a working capital balance of $592,631 at the end of 1997, compared with a deficit of $93,695 at the end of 1996. All of the Corporation's international capital expenditures were made in US dollars in 1997. Justinian mitigated its currency risk by holding the bulk of its cash reserves in US dollar term deposits and other low risk US denominated investments, and earned roughly $50,000 in foreign exchange revenue in 1997, due to the weakening of the Canadian dollar. The Corporation has no long term debt.

In March 1998, the Corporation closed a $3,000,000 equity financing by issuing a total of 10,000,000 special warrants at a price of $0.30 per special warrant. Each special warrant is exchangeable into one common share and three quarters of a warrant to purchase an additional common share at $0.42, at any time up to March 30, 1999. The funds will be used for the acquisition and capital expenditures of the Argentine assets. The Corporation has undertaken to qualify the special warrants by prospectus on or before July 31, 1998.

The Corporation does not yet have a credit facility established, but will be applying for a line of credit with a local bank in Argentina in 1998, to assist the funding of its properties there. Justinian will face foreign exchange exposure in 1998 because the oil price received for its production in Argentina will be linked to WTI and denominated in US dollars. Sales revenue will be paid in Argentine currency, which is also tied to the US dollar. Establishing a line of credit in Argentina will mitigate the operating foreign exchange risk facing the Corporation in 1998. Management will continue to monitor the relative strength of the Canadian and US dollars, and will take action as appropriate to protect the value of net income earned in Argentina.

NET ASSET VALUES

The following net asset values of Justinian's assets are calculated based on proved plus 50% probable reserves as estimated by Gilbert Laustsen Jung Associates Ltd. for its Canadian oil and gas assets, and Outtrim Szabo Associates Ltd. for its Romanian and Argentine oil and gas assets, using constant dollar economics, 15% discounted cash flow calculation, adjustments for net working capital, and the total number of outstanding common shares as of December 31, 1997, and the total number of outstanding common shares and special warrants as of April 1, 1998.

Cdn$ /Share	Undiluted	Fully Diluted
Excluding Argentine assets as of Dec. 31, 1997	$ 0.70	$ 0.68
Including Argentine assets as of April 1, 1998	$ 1.52	$ 1.20

It should be noted that the reserve evaluation report dated January 24, 1997 prepared by Outtrim Szabo Associates Ltd. for the Romanian assets is used in the above net asset value calculations. The Corporation has now participated in the drilling and abandonment of three exploratory wells in the Romanian concessions subsequent to the completion of the Outtrim report. Therefore, the report prepared by Outtrim in early 1997 may not reflect the current fair value of the Corporation's Romanian assets.

BUSINESS RISKS AND UNCERTAINTIES

Justinian, being an oil and gas exploration, development and production company, is exposed to certain risks and uncertainties inherent in the oil and gas business. These risks include those arising from exploration and development operations, and production risks associated with the natural depletion of reservoirs. Additional external risks may come from environmental safety regulations, governmental taxation regimes or financial risks associated with changing interest rates and fluctuating commodity prices. Competent technicians and professionals have been retained by the Corporation as employees and advisors, in order to mitigate these risks.

Further, the Corporation maintains a prudent approach to exploration and development and reviews all projects based on their potential to enhance shareholder value while not exposing the shareholder to undue financial risks. The Corporation is, and will continue to be, conservatively financed.

Management's Report

All information presented in the Annual Report is the responsibility of the Corporation's management. The accompanying Consolidated Financial Statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Where necessary, management has objectively generated estimates utilizing all relevant information available.

Justinian's management has implemented and maintained internal controls to provide reasonable assurance that assets are properly safeguarded and that transactions and financial records are properly recorded and maintained to provide reliable financial information.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and Deloitte & Touche, the Corporation's' auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Clarence Y. Chow
President and Chief Executive Officer

Sandra E. Luttyck
Treasurer

April 8, 1998

Auditors' Report

To the Shareholders of
Justinian Explorations Ltd.

We have audited the balance sheet of Justinian Explorations Ltd. as at December 31, 1997 and the statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporationís management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The financial statements for the year ended December 31, 1996, were audited by another firm of auditors who issued an unqualified report thereon.

Deloitte & Touche
Chartered Accountants

Calgary, Alberta
April 8, 1998

Balance Sheets

December 31, 1997 and 1996

	1997	1996
	$	$
ASSETS		
CURRENT		
Cash and short term deposits	**708,129**	168,522
Accounts receivable	**109,073**	40,189
Prepaid expenses	**3,081**	–
	820,283	208,711
Notes receivable (Note 3)	**103,000**	
Property and equipment (Note 4)	**7,636,247**	4,582,431
	8,559,530	4,791,142
LIABILITIES		
CURRENT		
Accounts payable	**113,246**	211,406
Due to shareholder (Note 5)	**114,406**	–
Loans payable to shareholders (Note 6)	**105,000**	196,000
	332,652	407,406
Commitments and contingencies (Notes 1, 9 and 11)		
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	**9,339,333**	4,912,027
Deficit	**(1,112,455)**	(528,291)
	8,226,878	4,383,736
	8,559,530	4,791,142

See accompanying notes to financial statements.

APPROVED BY THE BOARD

Clarence Y. Chow
Director

Brian J. Moss
Director

Statements of Operations and Deficit

Years Ended December 31, 1997 and 1996

	1997	1996
	$	$
REVENUE		
Petroleum and natural gas, net	**87,412**	–
Interest and other income	**56,564**	–
	143,976	–
EXPENSES		
Administrative	**330,317**	14,864
Consulting fees	**79,965**	116,815
Depletion and depreciation (Note 4)	**281,948**	–
Operating	**35,910**	–
	728,140	131,679
NET LOSS	**(584,164)**	(131,679)
DEFICIT, BEGINNING OF YEAR	**(528,291)**	(396,612)
DEFICIT, END OF YEAR	**(1,112,455)**	(528,291)
LOSS PER SHARE	**(0.05)**	(0.08)
Weighted Average Number of Common Shares	**12,820,982**	1,619,016
Total Number of Common Shares Outstanding at December 31	**19,503,544**	1,619,016

See accompanying notes to financial statements.

Statements of Changes in Financial Position

Years Ended December 31, 1997 and 1996

	1997	1996
	$	$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Loss for the year	**(584,164)**	(131,679)
Item not affecting cash		
Depletion and depreciation (Note 4)	**281,948**	–
Change in non-cash working capital items	**(385,935)**	316,764
	(688,151)	185,085
FINANCING		
Proceeds from issuance of common shares	**3,120,919**	384,327
Issuance of common shares on reverse takeover (Note 1)	**1,306,387**	–
Notes receivable (Note 3)	**(103,000)**	–
	4,324,306	384,327
INVESTING		
Acquisition of oil and gas properties	**(1,663,080)**	(394,396)
Acquisition of subsidiary (Note 1)	**(1,433,468)**	–
	(3,096,548)	(394,396)
NET CASH INFLOW (OUTFLOW)	**539,607**	175,016
CASH AND SHORT TERM DEPOSITS, BEGINNING OF YEAR	**168,522**	(6,494)
CASH AND SHORT TERM DEPOSITS, END OF YEAR	**708,129**	168,522

See accompanying notes to financial statements.

Notes to the Financial Statements

Years Ended December 31, 1997 and 1996

1. FINANCIAL PRESENTATION

a) Business Combination

Under an Offer to Purchase ("Offer") which closed on June 28,1997, PetroPower Energy Inc. ("PetroPower") acquired 100% of the shares of Justinian Explorations Ltd. ("Justinian"), a private oil and gas company. Under the Offer, each common share of Justinian was exchanged for seven common shares of PetroPower. All outstanding warrants and options of Justinian were also exchanged on the same basis. Since under the business combination more than 50% of the common shares of the consolidated entity were issued to former shareholders of Justinian, for accounting purposes, the transaction has been treated as a reverse take-over with PetroPower deemed to have been acquired by Justinian. The value ascribed to the 11,425,000 common shares of PetroPower at the date of acquisition was deemed to be $1,306,387, representing the book value of PetroPower at that date. On July 1, 1997, the two companies were amalgamated under the name Justinian. These financial statements represent the historical accounts of Justinian with the operations and assets and liabilities of PetroPower accounted for effective June 28, 1997.

The deemed acquisition of PetroPower by Justinian was accounted for using the purchase method as follows:

	$
Current assets (including cash of $7,993)	**21,150**
Property and equipment	**1,672,684**
	1,693,834
Current liabilities	**147,373**
Due to shareholder	**105,000**
	252,373
Net assets acquired	**1,441,461**
Consideration given:	
Common shares issued at deemed value	**1,306,387**
Transaction costs	**135,074**
	1,441,461

b) Recovery of capitalized costs

Justinian is in the process of exploring its petroleum and natural gas properties and has not yet determined whether the non-producing properties contain economically recoverable reserves. The recovery of the amounts shown for non-producing properties and the continuation of the Corporation as a going concern is dependent upon the existence of economically recoverable reserves, confirmation of the Corporationís interest in the underlying oil and gas claims, the ability of the Corporation to obtain necessary financing to complete the development of the properties as required under various agreements and achieving future profitable production levels.

2. SIGNIFICANT ACCOUNTING POLICIES

Full cost accounting

The Corporation follows the full cost method of accounting whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include those associated with property acquisition, exploration and development activities and overhead that is directly related to exploration and development activities.

Capitalized costs of petroleum and natural gas properties and related equipment within a cost centre are depleted and depreciated using the unit-of-production method based on estimated proven reserves of oil and gas as determined by independent consulting engineers. For the purpose of this calculation, production and reserves of oil and natural gas are converted to equivalent units based on relative energy content (6:1). Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion and depreciation until it is determined whether or not proved reserves are attributable to the properties or impairment occurs. Gains or losses on sales of properties are recognized only when crediting the proceeds to cost would result in a change of 20% or more in the depletion and depreciation rate.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test"). Under this test, an estimate is made of the ultimate recoverable amount from future net revenues using proved reserves and year end prices, plus the net costs of major development projects and unproved properties, less future removal and site restoration costs, overhead, financing costs, and income taxes. If the net carrying costs exceed the ultimate recoverable amount, additional depletion and depreciation is provided.

Future removal and site restoration costs

Estimates are made of the future removal and site restoration costs relating to the Corporation's petroleum and natural gas properties at the end of their economic life, based on year end values, in accordance with current legislative requirements and industry practice. Annual charges are provided for on the unit of production basis.

Joint venture accounting

A portion of the Corporation's exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Corporation's proportionate interest in such activities.

Financial instruments

Financial instruments include accounts receivable, notes receivable, accounts payable and accounts due to shareholders. Given the short term nature of these instruments, the carrying value of the instruments approximates their fair value.

3. NOTES RECEIVABLE

As a performance incentive program, the Corporation has made advances to certain officers to enable them to purchase common shares of the Corporation. These advances are evidenced by promissory notes which are repayable on or before January 17, 1999, without interest.

4. PROPERTY AND EQUIPMENT

	1997	1996
	$	$
Non-producing properties		
Vietnam	–	175,000
Mali	–	75,000
Romania	**5,883,344**	4,329,783
Tunisia	–	2,648
Producing properties		
Canada	**1,782,203**	–
	7,665,547	4,582,431
Accumulated depletion and depreciation	**(29,300)**	–
Net book value	**7,636,247**	4,582,431

Romania

The Corporation owned a 5% (1996-5%) working interest in a production sharing contract granted by the Romanian Government covering approximately 1.7 million acres located offshore in the Black Sea in 1997. The acreage is being explored for oil and gas. The Corporation participated in the drilling of three wells during 1997, the Corporation's share of which amounted to approximately $1,553,560. The Romanian properties are in the pre-development stage, and as such the costs are not subject to depletion. Drilling activity to date has resulted in the discovery of non-commercial quantities of gas. The recovery of the costs incurred is ultimately dependent on discovering commercial quantities of hydrocarbons. The likelihood of such a discovery is not determinable at this time.

In 1998, the Exploration and Production Sharing Agreement dated August 6, 1992 was amended to extend the initial exploration period from March 31, 1998 to December 31, 1998. The Corporation and its partners have the option, subject to Romanian Government approval, to further extend the expiry date for an additional twelve months from December 31, 1998 to December 31, 1999. Under the amending agreement, the Corporation's existing working interest was increased from 5% to 8.33% as a result of one of the partners withdrawing from the project.

Africa and Vietnam

Included in depletion and depreciation expense is the amount of $252,648 representing a writedown of the costs of the Mali, Tunisia, and Vietnam assets as no further exploration is planned for these regions. The Corporation does not currently own an interest in any properties in Vietnam but plans to continue to monitor the areas with a view of acquiring interests should the right situations occur.

General and Administrative Costs

In 1997, no part of general and administrative costs were included as capitalized costs.

5. DUE TO SHAREHOLDER

At December 31, 1997, the Corporation has an account payable in the amount of $114,406 to a shareholder company which has a director and an officer in common with Justinian. The amount relates to the Corporationís share of operating costs and general and administrative expenses on properties that are jointly owned with the shareholder company.

6. LOANS PAYABLE TO SHAREHOLDERS

The loan balance of $105,000 at December 31, 1997 is due to a shareholder company which has a director and officer in common with Justinian. The loan is unsecured and is payable by December 31, 1998 with interest at prime plus 1%. In 1996, certain shareholders provided short term loans to the Corporation totalling $196,000. These loan were fully paid in 1997 without interest.

7. SHARE CAPITAL

Authorized capital

The authorized capital is comprised of the following:

Unlimited number of common voting shares without nominal or par value
Unlimited number of first preferred shares
Unlimited number of second preferred shares

The first and second preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series.

Issued share capital

	PetroPower		Justinian	
	Number of shares	**Amount $**	Number of shares	**Amount $**
Balance December 31, 1996	11,425,500	**1,627,630**	11,333,109	**4,912,027**
Issued for cash			915,676	**228,919**
Issued to officers for cash			168,000	**42,000**
Issued for cash			5,454,546	**3,000,000**
Cost of share issuance(150,000)				
Issued on acquisition of Justinian	125,099,317	**1,306,387**		
Cancellation of Justinian shares and PetroPower share capital		**(1,627,630)**	(17,871,331)	
Continuance of Justinian share capital		**8,032,946**		**(8,032,946)**
Adjustment for consolidation of 136,524,817 shares on 7:1 basis	(117,021,273)			
Balance, December 31, 1997	19,503,544	**9,339,333**	–	–

Reverse takeover

The business combination described in note 1 has been treated as a reverse takeover of PetroPower by Justinian. In accounting for the transaction, the accumulated deficit and share capital of PetroPower was eliminated at the date of acquisition of June 28, 1997 and the amount allocated to share capital at that date included the issued share capital of Justinian of $8,032,446 plus the deemed value of the shares issued to acquire PetroPower in the amount of $1,306,387. After giving effect to the transaction, the number of outstanding common shares were represented by the number of common shares of PetroPower outstanding as at June 28, 1997 plus the number of common shares issued to effect the reverse takeover.

Warrants and stock options

At December 31, 1997 the Corporation had 430,000 warrants outstanding to purchase common shares at a price of $0.55 per share, expiring on February 26, 1999. The Corporation also had 327,273 Agent's Warrants to purchase common shares at a price of $0.55 per share, which expired December 31, 1997.

At December 31, 1997 there were 1,596,910 options outstanding to purchase common shares at prices ranging from $0.55 to $0.70 per share. The Corporation received regulatory approval to amend the exercise price of 1,475,000 of the options listed above to $0.30 per share from $0.55 per share, effective April 1 1998. The options are exercisable at various dates to 2001. As at December 31, 1997, no options or warrants have been exercised.

8. INCOME TAXES

The Corporation currently is in a loss position and no current income tax provision is required for 1997 or 1996. The benefit of loss carryforwards totalling approximately $2,478,000 at December 31, 1997 will be recognized in the financial statements in future years as the losses are utilized. The losses expire over the period 2001 to 2004.

9. LEASE COMMITMENT

The company has committed to minimum lease payments relating to its office premises as follows:

	$
1998	**26,727**
1999	**26,727**
2000	**15,591**

10. RELATED PARTY TRANSACTIONS

During 1997 and 1996, the Corporation had the following related party transactions:

a) In 1997, consulting fees of $27,000 were paid to a company controlled by an officer and shareholder of the Corporation. In 1996, consulting fees of $116,815 were paid to a shareholder and companies controlled by shareholders.

b) During 1997, an officer and shareholder of the Corporation made a short term loan of $150,000 to the Corporation which was repaid during the year with interest in the amount of $1,966 (prime rate plus 2.5%).

c) Included in accounts payable at December 31, 1996 is the amount of $202,357 which was payable to shareholders or companies under their control. Of this total, $106,357 represented amounts payable to the previous president and vice president of the Corporation for their past consulting services to the Corporation.

11. SUBSEQUENT EVENTS

Special Warrants

On March 30, 1998 the Corporation issued by private placement 10,000,000 special share purchase warrants ("Special Warrants") at $0.30 per Special Warrant for gross proceeds of $3,000,000 (before broker commissions and expenses of the offering). Each Special Warrant entitles the holder to acquire, at no additional cost, one unit, consisting of one common share of the Corporation and three quarters of one common share purchase warrant. One whole share purchase warrant will entitle the holder to purchase one common share at a price of $0.42 until March 30, 1999. Under the terms of the private placement, the Corporation is required to file and obtain a receipt for a final prospectus on or before July 31, 1998 or the Corporation will be required to issue to the holder of each Special Warrant, at no additional cost, one unit consisting of one and one-tenth common shares and three quarters of one common share purchase warrant. The proceeds from this private placement are to be used to finance the Corporation's acquisition cost and capital expenditures for a property interest in Argentina.

Argentina Development Project

On March 18, 1998, the Corporation signed an agreement with an Argentinean company to undertake the joint development of certain oil and gas properties in Argentina. The Corporation has a three phase funding commitment under the agreement. Under Phase One, the Corporation is committed to provide funding of $2,200,000 US, consisting of a cash payment of $1,660,000 US and a $540,000 US loan to the Argentina company. The loan when issued is to bear interest at 1% per annum and will be repaid from cash flow generated from production over the period to December 31, 2000. The Corporation in return will acquire a 65% interest in the project. On March 26, 1998, the Corporation advanced cash totalling $750,000 US in accordance with the terms of the agreement.

Under Phase Two, the Corporation has the option to fund 100% of project capital expenditures to a maximum of $600,000 US by June 30, 1999 to retain its 65% interest or, to commit to fund 50% of the total project capital expenditures and have its interest reduce to 50%.

Phase three will proceed only if the project is financially and economically successful. If the Corporation retains its 65% in Phase II, the Corporation has a further option to acquire an addition of 15% interest or 80% total interest in the project through a further 100% funding commitment of $2,000,000 US before December 31, 2000.

The Corporation is in the process of completing the Argentinean regulatory process for title assignment to the Argentinean properties, and has protected its cash investment in the acquisition cost of these properties by means of an irrevocable Letter of Credit drawn on the account of the Seller of the properties, in the unlikely event that the title transfer does not occur as anticipated.

Corporate Information

BOARD OF DIRECTORS

A. Gordon Stollery
Chairman
Northstar Energy Corp.
Calgary, Alberta

Clarence Y. Chow
President and CEO
Justinian Explorations Ltd.
Calgary, Alberta

Bill Y.P. Fung
President
Land Petroleum International Inc.
Calgary, Alberta

Brian J. Moss (1)
Vice President
Alberta Energy Company International Ltd.
Calgary, Alberta

Colin F. Ogilvy (1)
President
OGY Petroleums Ltd.
Calgary, Alberta

John Weatherall (1)
President
Scarthingmoor Asset Management Ltd.

(1)audit committee

OFFICERS

A. Gordon Stollery
Chairman of the Board

Clarence Y. Chow
President and CEO

Brian J. Moss
Vice President, Exploration

Bill Y.P. Fung
Vice President, Engineering and Operations

Sandra E. Luttyck
Treasurer and
Corporate Secretary

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STOCK EXCHANGE LISTING

The Alberta Stock Exchange
Stock Symbol: JEL

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada
Calgary, Alberta

Abbreviations

bbl	barrel
boe	barrel of oil equivalent (10 mcf = 1 bbl)
boe/d	barrels of oil equivalent per day
mboe	thousand barrels of oil equivalent
mbbl	thousand barrels
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
Mmcf	million cubic feet
WTI	West Texas Intermediate
NGL	natural gas liquids

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